

9. Unpaid cheque register incomplete

Audit finding

The following unpaid cheques reflected on the June 2009 bank reconciliation could not be found in the unpaid cheque register:

25/05/2009	Pers Loan 001677 001293 090525	300.73
25/06/2009	Pers Loan 001677 001293 090525	300.73
25/06/2009	Inward unpaid – Refer to drawer: ML Masondo	635.02

Root cause

Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

Financial loss to the municipality due to possible misappropriation of unpaid cheques

Recommendation

The unpaid cheque register should be updated and compared to the bank statement and bank reconciliation on a monthly basis to identify that all unpaid cheques have been completely recorded.

Management response

Noted, correspondence to the revenue manager from the CFO will be prepared to ensure that the register is in his custody and it must be submitted to the CFO who will review it as well.

Name: J Mhlongo

Date: 30/10/2009

Auditor's response

Controls and policies should be established to ensure that supervision and review are undertaken.

10. Fruitless and wasteful expenditure

Audit finding

Reports were not submitted to the mayor, the MEC for Local Government and to the Auditor-General with regard to the incurring of fruitless and wasteful expenditure totalling R45 398, as required by section 32(4)(a) of the MFMA.

Root cause

The entity does not identify risks to the achievement of financial reporting objectives.

Risk

Transactions and events may not be reported, as prescribed, thus increasing incidences of fraud, error and misstatements.

Recommendation

Measures should be implemented to ensure that all such spending should be accounted for, disclosed and reported, as prescribed by legislation.

Management response

To be reported to council, the report to be submitted to council will also incorporate the expenditure from 2007/2008 as identified in the 2007/08 Action Plan.

Name: J H Mhlongo

Date: 21/10/09

Auditor's response

Management must ensure that the relevant reporting takes place to enable effective financial reporting and decision-making.

11. Approval of the budget and the SDBIP not timeous

Audit finding

The budget of the municipality was approved on 6 June 2008 and not at least 30 days before the start of the budget year, as required by sections 24(1) and 53(1)(c)(i) of the MFMA.

Furthermore, section 53(1)(c)(i) of the MFMA was not adhered to as the SDBIP was approved on 18 March 2009. There is a difference of nine months in the time period that both policies are meant to be adopted. This is contrary to the 28 day requirement set out in section 53(1)(c)(ii) of the MFMA.

Where delays are experienced in meeting the deadlines above, section 53(2) states that reports must be submitted promptly to the municipal council and the MEC for Finance in the province of any delay in the tabling of the budget and the approval of the SDBIP.

No reports were submitted in this regard.

Root cause

Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

The SDBIP may not be aligned to the budget of the municipality thus impeding on service delivery requirements.

Recommendation

- The budget process plan that is in place should be strictly adhered to. This will ensure that all timelines set, will be met. The budget process plan should be clear in assigning responsibility to people for the performance of specific tasks. Additional monitoring control should be implemented to ensure that all tasks and deadlines set are achieved.
- The budget process plan should be extended to include the SDBIP as the SDBIP is largely dependent on the budget. Monitoring controls mentioned above should also be implemented for this process.

Management response

Audit findings noted, the Budget and Compliance officer will be asked to submit a detailed response to this and advise on controls to be instituted.

Name: P Sibiya

Date: 26/10/2009

Auditor's response

A proper timetable should be drawn up linking all the activities to be undertaken, setting out roles and responsibilities and sufficient time allocated to achieve all deliverables.

12. Creditors not paid timeously

Audit finding

The following instances were noted where creditors were not paid within 30 days of receipt of invoice:

Supplier Name	Amount per the general ledger	Invoice Date	Payment Date	Days
AUDITOR GENERAL	70,711.20	2008/11/30	2009/01/28	59
INDWE RISK SERVICES	60,471.07	2008/07/01	2008/08/21	51
INDWE RISK SERVICES	36,936.84	2008/07/01	2008/08/21	51
INDWE RISK SERVICES	7,126.32	2008/07/01	2008/08/21	51
INDWE RISK SERVICES	2,805.26	2008/07/01	2008/08/21	51
INDWE RISK SERVICES	1,850.00	2008/07/01	2008/08/21	51
INDWE RISK SERVICES	247.37	2008/07/01	2008/08/21	51
INDWE RISK SERVICES	22,500.00	2008/07/01	2008/08/21	51
INDWE RISK SERVICES	227,785.09	2008/10/01	2008/11/06	36
INDWE RISK SERVICES	131,922.81	2008/10/01	2008/11/06	36
INDWE RISK SERVICES	29,796.49	2008/10/01	2008/11/06	36
INDWE RISK SERVICES	5,564.04	2008/10/01	2008/11/06	36
INDWE RISK SERVICES	739.47	2008/10/01	2008/11/06	36
SALGA	156,638.60	2008/04/01	2008/08/08	129
CONTOUR TECHNOLOGY (PTY)LTD	18,825.50	2008/10/31	2008/12/05	35
CONTOUR TECHNOLOGY (PTY)LTD	18,481.50	2008/09/30	2008/12/05	66
CONTOUR TECHNOLOGY (PTY)LTD	18,617.00	2008/08/29	2008/12/05	98
CONTOUR TECHNOLOGY (PTY)LTD	14,293.50	2008/03/31	2008/12/05	249
CONTOUR TECHNOLOGY (PTY)LTD	14,742.00	2008/03/31	2008/12/05	249
CONTOUR TECHNOLOGY (PTY)LTD	15,282.00	2008/01/31	2008/12/05	309
CONTOUR TECHNOLOGY (PTY)LTD	16,681.00	2007/12/31	2008/12/05	340
CONLOG SOLUTIONS	139,998.00	2008/11/21	2009/01/28	68
DASA FOLLDLIGHTING	43,550.00	2008/08/11	2008/09/30	50
JAMES HOLLEY CONSULTING CC	26,304.62	2008/10/10	2009/02/26	139
BEKA	40,560.00	2008/11/27	2009/01/28	62

Root cause

Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

- The municipality may incur loss in the form of penalties and interest, as debts are not being settled timeously.
- Smaller contractors may go out of business.

Recommendation

Measures should also be implemented to ensure that debts are settled timeously to prevent the possibility of fruitless and wasteful expenditure.

Management response

Noted.

Name: J Mhlongo

Date: 30/10/2009

Auditor's response

Where payment of creditors cannot be made within 30 days, reasons therefore must be recorded and evidenced by signatures.

13. Tariff bylaws not updated

Audit finding

Tariff bylaws have not been updated to reflect the guidance on the most recent amounts to be considered for consumer deposits, as required by section 75(1) of the MSA.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

Risk

The community and municipal staff are not aware of the updated amounts to be paid in respect of consumer deposits, thus resulting in loss to the municipality.

Recommendation

Tariffs should be updated to reflect reasonable consumer deposits to ensure that the municipality does not suffer any financial loss.

Management response

Management will review bylaws in respect to consumer deposits in the next financial year.

Name: NG Zulu

Date: 29/10/2009

Auditor's response

Management is urged to review all tariff bylaws regularly and communicate relevant changes to the public and staff timeously.

14. Municipality's website not up to date

Audit finding

Contrary to section 75(1) of the MFMA, the municipality has failed to place the following documents on its website:

- a) the annual and adjustments budgets and all budget-related documents;
- b) all budget-related policies;
- c) the annual report;
- d) all performance agreements required in terms of section 57(1)(b) of the Municipal Systems Act;
- e) all service delivery agreements;
- f) all long-term borrowing contracts;
- g) all supply chain management contracts above a prescribed value;
- h) an information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14(2) or (4) during the previous quarter;
- i) contracts to which subsection (1) of section 33 apply, subject to subsection (3) of that section;
- j) public-private partnership agreements referred to in section 120;
- k) all quarterly reports tabled in the council in terms of section 52(d); and
- m) any other applicable legislation, or as may be prescribed.

Root cause

Ongoing monitoring of municipality's website as well as supervisory reviews were not undertaken to enable management to determine whether internal controls over completeness of information on the website is present and functioning.

Risk

- The public will not be kept up to date.
- Potential investors may be lost due to lack of information.

Recommendation

Management should ensure that the website is kept up to date with all relevant information.

Management response

Audit Findings noted, the website will be upgraded

Name: S Khumalo

Date: 26/10/2009

Auditor's response

The municipality should exploit this universal medium to attract potential investors both locally and internationally.

15. Municipality's tariff policy insufficient

Audit finding

The tariff policy that is in place does not differentiate in respect of services, service standards, service providers and other matters between different categories of users, debtors or geographical areas, as required by section 75(2) of the MSA.

Root cause

Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

The municipality's tariff policy will not contain required information to enable efficient and effective service delivery.

Recommendation

The tariff policy should be revised to include the services and different categories of users.

Management response

Noted.

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

Management is urged to ensure that proper reporting takes place to enable effective and efficient service delivery.

16. Weakness over petty cash

Audit finding

The municipality did not exercise effective management over petty cash, as required by SCM regulation 15. This was evidenced by the following:

- Petty cash purchase requisitions are signed by each head of department and submitted to the chief financial officer for final approval, thus there is no monthly report that is prepared by each director to monitor the number of petty cash purchases that has been utilised per month, per department.
- It is also difficult to monitor whether the total amount spent per month exceeds the petty cash limit of R2 000.

Root cause

Control activities that are specified in the SCM policy are not implemented by the municipality to mitigate risks of over expenditure on the petty cash vote.

Risk

Excessive spending may occur out of petty cash which exceeds the monthly limit.

Recommendation

- Management should adhere to the petty cash procedures that are specified in the SCM policy.
- A control register should be maintained by each head of department to be submitted to the chief financial officer at the end of each month for review.
- A monthly report should be drafted by the chief financial officer to consolidate petty cash expenditure that has been authorised for the month for all departments.

Management response

Comments noted, controls on Petty Cash system to be re-visited

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

Management's endeavours to execute more control over petty cash management is encouraged to curtail excessive spending.

EMPLOYEE COSTS

17. Changes to masterfile report not authorised

Audit finding

Reports regarding the changes to masterfile data, with specific regards to payroll, are not printed on a monthly basis, reviewed and approved by a senior official.

Root cause

General, hardware and application controls have not been designed to ensure the reliability of the operating system, the accuracy of the data outputs, and the protection of equipment and files.

Risk

- Unauthorised changes to the master file data could be effected and not detected and corrected timeously.
- Fictitious persons could be added to the payroll.

Recommendation

All changes to master file report should be printed on a monthly basis, reviewed and approved by an independent senior official.

Management response

Noted, the IT manager will be advised by the CFO that the changes to the masterfile report must be printed monthly and all changes must be authorised by the CFO. A circular advising all staff members will be issued by not later than November 2009.

Name: J Mhlongo

Date: 30/10/2009

Auditor's response

This control measure should be implemented without delay.

18. Reconciliation of payroll to financial systems not reviewed

Audit finding

The monthly reconciliations between the payroll system and the financial system are not reviewed by senior management.

Root cause

- Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.
- Management has not specified the financial reporting objectives with sufficient clarity and criteria to enable the identification of risks to reliable financial reporting.

Risk

- Omissions, errors and misstatements in the capturing of transactions may not be detected and corrected timeously, due to insufficient supervisory checks, internal reviews and reconciliations.
- Inaccurate payments could be made to employees thus resulting in loss to the municipality.

Recommendation

Management must ensure that reconciliations are performed on a monthly basis to reduce the risk of omissions, errors and misstatements not being detected and timeously corrected. Where reconciliations are performed, management must ensure that reviews are performed and signed as evidence thereof.

Management response

All monthly reconciliations of payroll system to financial systems will be reviewed by payroll manager and finally the CFO as from 01 November 2009.

Name: J Mhlongo & S Memela

Date: 30/10/2009

Auditor's response

The absence of reconciliations will impede effective financial management and control.

19. Skills development levy differences

Audit finding

The following difference was noted with regards to the amount of skills development levy (SDL) paid during the year:

	R
Salaries account	23 097 126,64
SDL account	326 786,76
SDL based on 1% of salaries	230 971,23
Difference	R95 815,53

Root cause

Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning.

Risk

The municipality may incur loss due to possible incorrect calculation and payment of SDL expense.

Recommendation

This matter should be investigated and an appropriate action should be taken to reconcile and correct the difference.

Management response

Noted, the matter will be investigated as from 1 November 2009 for corrective action and internal controls / close supervision will be implemented immediately.

Name: J Mhlongo & S Memela

Date: 30/10/2009

Auditor's response

The weakness giving rise to this error should be investigated and rectified urgently.

20. No reconciliations for third party payments

Audit finding

Reconciliations were not performed on a monthly basis to ensure that all third party payments have been made timeously.

Furthermore, a list of cheques printed is compiled, but it is not reconciled to the total deductions, to ensure that cheques printed for all third parties as per the payroll are valid.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation

Risk

Omissions, errors and misstatements in the capturing of transactions may not be detected and corrected timeously, due to insufficient supervisory checks, internal reviews and reconciliations.

Recommendation

A reconciliation should be performed on a monthly basis to ensure that all third parties are paid timeously and that errors/omissions are identified and rectified timeously.

Management response

Reconciliations will be done on a monthly basis as from 01 November 2009.

Name: J Mhlongo & S Memela

Date: 30/10/2009

Auditor's response

The absence of reconciliations will impede effective financial management and control. Furthermore, there must be checks and balances to ensure that only valid deductions are allowed.

21. Unissued cheque register not signed

Audit finding

The unissued cheque register was not signed by Councillor R.V. Sibiya every month when he collects the cheque of Councillor Z.P. Dlamuka, neither does the unissued cheque register make provision for the person collecting the cheque to sign.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation

Risk

Cheques may be collected and encashed by unauthorised persons thus causing loss to the municipality.

Recommendation

The unissued cheque register should be signed by the recipient when he collects the cheque on behalf of another person and the unissued cheque register should be updated to include a signatory field for the recipient when the cheque is returned.

Management response

Acknowledged, an unissued cheque register will be maintained and updated as recommended.

Name: J Mhlongo & N Zulu

Date: 30/10/2009

Auditor's response

Management should consider making EFT payments directly to the recipients bank account.

22. Payroll not certified by heads of departments

Audit finding

Payroll certifications to verify that the actual employee exists and that he/she should be paid, is only sent to the human resource department, where the Head of the department (Mr DNS Buthelezi) and the Director of Corporate Services (Mr N.G. Zulu) signs the payroll certification as proof of physical existence of the employees, and confirm that they should be paid.

These payroll certifications should preferably be reviewed by the head of each department, as they are knowledgeable of who is working for them, and whether such payments are valid.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

Risk

Unauthorised/fictitious employees could be paid thus causing loss to the municipality.

Recommendation

The payroll certification of each department should preferably be performed by persons who are in direct contact with employees to ensure that valid payments are made.

Management response

Noted, all payroll certifications will be reviewed by heads of departments as from 01 November 2009.

Name: J Mhlongo & N Zulu

Date: 01 November 2009

Auditor's response

Management is urged to strengthen the controls over the validation of employees and hours worked, to enable payment to the correct employees.

23. Inadequate documentation for other leave

Audit finding

Adequate supporting documentation for the following leave transactions could not be provided:

Name of employee	Type of leave	Dates utilised	Number of days	Weakness noted
B Mngomezulu	Family responsibility	30 Jun - 4 Jul 08	5	Documentation not sufficient to support leave.
	Special leave	22 Dec 08 - 2 Jan 09	7	No supporting documentation
MJ Nththa	Family responsibility	28 Jul - 1 Aug 08	5	No supporting documentation
	Paternity leave	29 Sep - 3 Oct 08	5	No supporting documentation
SA Mvelase	Compassionate leave	26 Jan - 27 Jan 09	2	No supporting documentation
SD Shongwe	Compassionate leave	28-Nov-08	1	No supporting documentation

Root cause

Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness, as measured by the extent to which specific control objectives are achieved.

Risk

Employees could take leave without adequate proof of valid supporting documentation being attached to their leave form which may result in loss to the municipality.

Recommendation

Proper controls regarding the taking of other leave should be implemented, for example: Where an employee takes family responsibility leave or other leave the necessary approval should be obtained or proof should be supplied.

Management response

HODs will be reminded and encouraged to approve the above mentioned leave when there are supporting documents.

Name: DNS Buthelezi

Date: 27/10/2009

Auditor's response

In cases where valid supporting evidence cannot be provided for other leave utilised, valid reasons should be provided on leave forms with the supervisor confirming this in writing.

24. Leave approved after leave is taken

Audit finding

The following instances were noted, where annual leave was taken before prior approval by senior management:

Employee	Leave taken	Approval date
MJ Ntetha	27 Mar - 30 Mar	02-Apr-09
	29-Jan-09	05-Feb-09
	01-Dec-08	14-Jan-09
SA Mvelase	27-Mar-09	01-Apr-09
EN Mlambo	26-Aug-08	01-Sep-08
	28 Apr - 30 Apr 09	04-May-09
SD Shongwe	23-Jul-08	29-Jul-08
T Mthethwa	01-Sep-08	02-Sep-08

Root cause

Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning.

Risk

Employees may exceed leave balances, as leave is taken prior to approval, which will result in loss of work days for the municipality.

Recommendation

Management should ensure that leave forms are completed and are approved by the appropriate levels of management before leave is taken, in the case of vacation and study leave.

Management response

HOD will be reminded and also encourage to approve the above mentioned leave when there are supporting documents.

Name: DNS Buthelezi

Date: 27/10/2009

Auditor's response

In cases where applications cannot be completed prior to leave being taken, valid reasons should be provided on leave forms with the supervisor confirming this in writing.

25. Medical certificates not on file

Audit finding

F.C. Zulu (S 000265) utilised sick leave on the following days without a valid medical certificate being attached, recommending the sick leave:

Dates	Number of days
19 Sep - 25 Sep 08	5
24 Feb - 27 Feb 09	4
5 Mar - 6 Apr 09	23

Root cause

Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness, as measured by the extent to which specific control objectives are achieved.

Risk

Employees may misuse sick leave if they do not have to provide a doctor's certificate for sick leave taken resulting in loss to the municipality.

Recommendation

If more than three days sick leave is taken by any employee, an authorised doctor's certificate should be attached confirming that he/she was sick, and that the doctor recommended the time off to recover.

Management response

HOD will be reminded and also encouraged to approve the above mentioned leave when there are supporting documents.

Name: DNS Buthelezi

Date: 21/10/2009

Auditor's response

Management's implementation of stricter controls over sick leave will prevent loss of work days due to employees abusing sick leave.